NYNEX Government Affairs
1300 I Street NW Suite 400 West Washington DC 20005
202-336-7888

Susanne Guyer
Executive Director
Federal Regulatory Policy Issues

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

January 28, 1997

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

Re: CC Docket No. 96-45 - Universal Service and CC Docket No. 96-262 - Access Reform

Dear Mr. Caton:

On January 27, Mr. F. Gumper and I, representing NYNEX, met with Mr. J. Coltharp, Special Advisor to Commissioner Quello to discuss issues in the above-captioned proceedings. The attached charts were used as the basis for discussion.

Sincerely,

Susanne Guyer

cc: Mr. J. Coltharp

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Joint Board Recommendations

- Proxy Model
  - The ultimate model adopted by the FCC should include geographically defined areas that are consistent with the geographic areas used for unbundled elements, access, and retail rates.
  - Inconsistent geographic areas will result in arbitrage.

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Necessary Linkage between Universal Service and Network Elements

Universal Service = Network Elements plus Retail Costs

a) Network Elements =

- Loop
- Port
- Local Switching (500-700 MOUs)
- Transport and Terminating Access
- Access to E911, Operator Services and Directory Assistance

b) Retail Costs =

State Approved $ per line to Cover Customer Care Costs for Basic Service

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Example of inconsistent deaveraging of Universal Service support and unbundled elements.

UNBUNDLED ELEMENTS

Zones	Areas	Average BCM2 Cost/Month*
1	Rural	$38.42
2	Rural/Suburban	$25.38
3	Suburban	$22.04
4	Urban	$20.12

**Assume retail costs of $4.00/month*

UNIVERSAL SERVICE COSTS

Range of costs for individuals wire centers within Zone 1:

Wire Centers	Cost/ Month	Line Served
MILTON	$23.98	12,415
ROME	$26.78	27,951
GREENFIELD CENTER	$48.91	4,914
BRAINARDSVILLE	$124.70	1,010
ST. REGIS FALLS	$122.92	1,251
PUTNAM	$149.54	482

Gaming Opportunity: *target high cost wire centers within a zone.*

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There is Important Linkage Between Unbundled Network Elements and USF Support:

- Geographical deaveraging should be the same.
- For Universal Service Costing, Joint Board should specify reasonable number of zones in state (2-4)
  - Urban
  - Suburban
  - Rural
- Wire Center, Census Block Group -- administrative nightmare

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Joint Board Recommendations

CCL Proposal

- NYNEX agrees with proposal to take CCL and apply on a flat-rated, presubscribed line basis to IXCs if:
  - ➤ End user no-PICs an IXC, end user pays per line charge.
  - ➤ IXCs can pass on to end user as a flat rated charge, if desired.

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Access Reform

- Flat rated, per line IXC charge should be extended to all non-traffic sensitive costs:
  - Loop
  - Line and trunk port of switch
  - Intrastate costs allocated to Interstate Access via separations
  - "Legacy" costs

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Joint Board Recommendations

Concerns:

- Cost Recovery
  - ➤ Not addressed in the Joint Board's recommendation
  - ➤ Customer "surcharge" most reasonable mechanism
- Method of calculating carrier payments
  - ➤ NYNEX proposal use of retail revenues less basic residence local service revenues
  - ➤ Joint Board proposal results in disproportionate burden on LECs

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Funding the USF

	Industry (%)			
Method	**LEC**	**IXC**	**Other**	**NYNEX**
Retail Revenue Less Residence Local	38	50	12	4.9
Retail Revenues	47	43	10	6.1
Gross Revenue Less Carrier Payments	63	25	12	7.8

If Total Fund = $8 Billion
NYNEX Share $400 - $600 Million

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Allocating and Collecting USF

To be competitively neutral, allocation and collection of USF must be linked.

A plan that places an unequal burden on retail customers of different companies

IS NOT

a competitively neutral mechanism.

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Likewise: Hiding Universal Service Funding in Customers Rates is Implicit, Not Explicit Funding

Solution:

Need a uniform surcharge on retail revenues less residence basic service and interstate per line charge.

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Example: USF = $500 Million
(Two Companies)

($ Millions)	*Carrier A*	*Carrier B*
Retail Revenue	2,000	2,000
Carrier Revenue	1,000	-
Gross Revenue	3,000	2,000

Case 1: Use Retail Revenues. Total = $4,000 million

Carrier A pays $250 million and Carrier B pays $250 million

Surcharge Retail:

Carrier A = 12.5% and Carrier B = 12.5%

Explicit and Competitively Neutral

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Example: USF = $500 Million
(Two Companies)

Case 2: Use Gross Revenues

Carrier A pays $300 million and Carrier B pays $200 million

Collection:

a) Both Apply Surcharge to End Users

Carrier A = 15% and Carrier B = 10%

b) Carrier A Applies Surcharge to All Revenues, Required End User Surcharge:

Carrier A = 10% and Carrier B = 15%

Not Competitively Neutral

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Example: USF = $500 Million
(Two Companies)

Case 3: Use Gross Revenues Less Carrier Payments

Carrier A pays $375 million and Carrier B pays $125 million

Collection:

a) Both Apply Surcharge to End Users

Carrier A = 18.75% and Carrier B = 6.25%

b) Carrier A Applies Surcharge to All Revenues, Required End User Surcharge:

Carrier A = 12.5% and Carrier B = 12.5%

Appears Competitively Neutral, but -

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CC Docket 96-98, the FCC Stated: TELRIC Costs May Not Include Revenues Used to Subsidize Other Services

It is not clear if a LEC may apply surcharge on:

1) TELRIC network elements
2) Wholesale charges for resale
3) Access charges

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difference in total RBOC funding levels.[25] However, this does not explain the dramatic differences in universal service support levels for a given RBOC between the two models, which both purport to identify costs by CBG. As can be seen in Chart 2, four of the RBOCs receive far less support under the Hatfield Model, while three receive considerably more. These inconsistencies cast doubt on the ability of proxy models to reliably target high-cost areas.

Chart 2[26]

Comparison of RBOC Funding Levels Between BCM2 and Hatfield Models
Using $30 Benchmark
All Dollars in Thousands (000)

RBOC	BCM2 Model	Hatfield Model	Funding Difference
Ameritech	$ 377,904	$ 272,290	$ (105,614)
Bell Atlantic	$ 417,184	$ 109,157	$ (308,027)
BellSouth	$ 887,185	$ 431,057	$ (456,128)
NYNEX	$ 460,032	$ 96,150	$ (363,882)
Pacific	$ 193,118	$ 249,906	$ 56,788
SBC	$ 440,108	$ 682,682	$ 242,574
US West	$ 541,725	$ 811,084	$ 269,359
Total	$ 3,317,256	$ 2,652,326	

Additionally, individual state funding levels vary dramatically between the BCM2 Model and the Hatfield Model. Chart 3 illustrates how individual

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[25] These differences include; (1) different line counts; (2) different input assumptions; and (3) different zone applications. Hatfield applies CBGs to one of six zones for the development of an average zone cost.

[26] Source: Hatfield Costs obtained from Telecommunications Industries Analysis Project (TIAP) - Response to Request from NARUC Committee, December 4, 1996, revised December 13, 1996, Figure 3, page 15; BCM2 costs obtained form NYNEX analysis of BCM2 Model - USF Funding Levels based on average monthly cost at CBG level and $30 Benchmark.

Comparison of RBOC Funding Levels from BCM2 and Hatfield
$30 Benchmark
Dollars in Thousands (000)

		BCM2	Hatfield	Difference
Ameritech		$ 377,624	$ 272,290	$ (105,334)
	Illinois	$68,847	$ 92,973	$ 24,126
	Indiana	$58,008	$ 34,605	$ (23,403)
	Michigan	$139,411	$ 56,298	$ (83,113)
	Ohio	$74,177	$ 33,863	$ (40,314)
	Wisconsin	$37,181	$ 54,551	$ 17,370
				$ -
Bell Atlantic		$ 416,855	$ 109,157	$ (307,698)
	Delaware	$ 13,902	$ 41	$ (13,861)
	Maryland	$ 56,844	$ 310	$ (56,534)
	New Jersey	$ 49,875	$ 256	$ (49,619)
	Pennsylvania	$ 118,182	$ 28,124	$ (90,058)
	Virginia	$ 79,992	$ 41,226	$ (38,766)
	Wash DC	$ -	$ -	$ -
	West Virginia	$ 98,060	$ 39,200	$ (58,860)
				$ -
Bellsouth		$ 887,186	$ 431,057	$ (456,129)
	Alabama	$ 96,555	$ 86,829	$ (9,726)
	Florida	$ 98,368	$ 43,852	$ (54,516)
	Georgia	$ 102,450	$ 74,185	$ (28,265)
	Kentucky	$ 84,692	$ 34,527	$ (50,165)
	Lousiana	$ 118,681	$ 30,618	$ (88,063)
	Mississippi	$ 127,522	$ 68,563	$ (58,959)
	North Carolina	$ 71,940	$ 28,359	$ (43,581)
	South Carolin	$ 66,723	$ 23,550	$ (43,173)
	Tennessee	$ 120,255	$ 40,574	$ (79,681)
				$ -
NYNEX		$ 460,034	$ 96,150	$ (363,884)
	Maine	$ 77,293	$ 17,309	$ (59,984)
	Massachusett	$ 85,358	$ 32	$ (85,326)
	New Hampshir	$ 53,978	$ 3,198	$ (50,780)
	New York	$ 188,978	$ 67,433	$ (121,545)
	Rhode Island	$ 15,698	$ -	$ (15,698)
	Vermont	$ 38,729	$ 7,988	$ (30,741)
	Connecticut		$ 190	$ 190
				$ -
Pacific		$ 193,118	$ 249,906	$ 56,788
	California	$ 172,568	$ 204,207	$ 31,639
	Nevada	$ 20,550	$ 45,699	$ 25,149
				$ -
SBC		$ 440,109	$ 682,682	$ 242,573
	Arkansas	$ 64,175	$ 72,090	$ 7,915
	Kansas	$ 46,665	$ 83,710	$ 37,045
	Missouri	$ 76,832	$ 130,198	$ 53,366
	Oklahoma	$ 70,690	$ 120,934	$ 50,244
	Texas	$ 181,747	$ 275,750	$ 94,003
				$ -
US West		$ 541,688	$ 811,084	$ 269,396
	Arizona	$ 74,830	$ 86,660	$ 11,830
	Colorado	$ 74,164	$ 65,557	$ (8,607)
	Idaho	$ 32,230	$ 40,664	$ 8,434
	Iowa	$ 35,018	$ 69,714	$ 34,696
	Minnesota	$ 58,366	$ 94,885	$ 36,519
	Montana	$ 21,713	$ 59,789	$ 38,076
	Nebraska	$ 23,282	$ 80,360	$ 57,078
	New Mexico	$ 47,681	$ 75,561	$ 27,880
	North Dakota	$ 13,754	$ 45,322	$ 31,568
	Oregon	$ 40,810	$ 60,856	$ 20,046
	South Dakota	$ 34,109	$ 27,993	$ (6,116)
	Utah	$ 28,828	$ 37,573	$ 8,745
	Washington	$ 40,469	$ 46,673	$ 6,204
	Wyoming	$ 16,434	$ 19,477	$ 3,043
Total		$ 3,316,614	$ 2,652,326	

Attachment D

BENCHMARK MUST BE INCREASED BY EXISTING SUBSIDY